

REPORT BY THE  
AUDITOR GENERAL  
OF CALIFORNIA

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THE SELECTION OF THE NEW MEDI-CAL  
FISCAL INTERMEDIARY

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REPORT BY THE  
OFFICE OF THE AUDITOR GENERAL  
TO THE  
JOINT LEGISLATIVE AUDIT COMMITTEE

P-228.5

THE SELECTION OF THE  
NEW MEDI-CAL FISCAL INTERMEDIARY

SEPTEMBER 1983



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September 28, 1983

P-228.5

Honorable Art Agnos, Chairman  
Members, Joint Legislative  
Audit Committee  
State Capitol, Room 3151  
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the monitoring of the efforts of the Medi-Cal Procurement Project (MCP). Specifically, the report details the status of the procurement of Medi-Cal fiscal intermediary services. In addition, the report shows that the Computer Sciences Corporation was awarded the new contract.

Respectfully submitted,

  
THOMAS W. HAYES  
Auditor General

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## SUMMARY

This is the fifth Auditor General report addressing issues pertaining to the selection of the next Medi-Cal fiscal intermediary by the Department of Health Services' Medi-Cal Procurement Project (MCPPI). Since our last report, the MCPPI released its Request for Proposal (RFP), administered the resolution of vendor protests to the RFP and the proposal evaluation process, issued Invitations for Bid, and selected the Computer Sciences Corporation as the new Medi-Cal fiscal intermediary, all in accordance with the requirements stated in the RFP. The selection of the new contractor has been protested, however, and the new contract will not be awarded until the Department of General Services resolves this protest. In this report, we discuss the procedures the MCPPI followed in resolving protests to the RFP, evaluating proposals, inviting bids, and selecting the new fiscal intermediary.

The MCPPI has complied with RFP requirements in resolving vendor protests to the RFP. Following the release of the RFP on March 1, 1983, the MCPPI received protests from two vendors, the Electronic Data Systems Corporation (EDS) and the Computer Sciences Corporation (CSC), concerning several provisions in the RFP. A third vendor, the McAuto Systems Group, Incorporated (McAuto), submitted comments on the two protests. Acting on recommendations of an independent mediator hired by the Health and Welfare Agency, the MCPPI changed sections of the RFP. The major change was the shortening of the contract takeover period by three months.

The MCPP has also followed RFP requirements in evaluating vendor proposals. The MCPP received and evaluated proposals from the EDS, the CSC, and McAuto. In a four-phase evaluation process, the MCPP judged each of the proposals to be acceptable. We monitored each phase of the evaluation, and found that the MCPP complied with required evaluation procedures. Although we found some errors on scoring sheets and documentation, the MCPP corrected these errors based on our comments and suggestions.

The MCPP invited the three firms that had submitted acceptable proposals to submit bids for the Medi-Cal fiscal intermediary contract. We reviewed drafts of the Invitation for Bid (IFB) and identified errors, which we made known to the MCPP. In addition, we suggested changes in format and language to make the IFB more clear. The MCPP incorporated these changes in the IFB.

On August 24, 1983, the MCPP opened bids. The Computer Sciences Corporation submitted the low bid of \$72,950,000. On August 29, after its evaluation of the vendor's bid package, the MCPP announced the Notification of Intent to Award the contract to the CSC. As part of our monitoring, we reviewed the MCPP's evaluation of vendor bid packages and found that the MCPP had adhered to its procedures.

However, McAuto protested the award of the contract to the CSC. McAuto contends that the CSC bid is nonresponsive because the CSC significantly reduced proposed staffing and improperly modified its bid after the bid was opened. The Department of General Services is responsible for resolving this protest. The fiscal intermediary contract will not be awarded until the protest is withdrawn or resolved.

## INTRODUCTION

As required by the Legislature in the Supplemental Reports of the 1982 and 1983 Budget Acts, we have been monitoring each phase of the selection of the next Medi-Cal fiscal intermediary by the Department of Health Services' Medi-Cal Procurement Project (MCPPE). In this report we discuss the progress of the MCPPE since the release of the Request for Proposal (RFP) on March 1, 1983. We have reviewed the MCPPE's resolution of vendor protests to the RFP, evaluation of proposals, development of the Invitation for Bid, and selection of the new fiscal intermediary. Our next and final report will review the transition to the new fiscal intermediary and the State's testing of the new contractor's processing system.

### Medi-Cal History

Medi-Cal is California's version of the federal Medicaid program. The program, which is administered by the Department of Health Services, provides medical assistance to the State's poor and needy. Medi-Cal's annual expenditures of approximately \$5 billion place it among the State's largest programs. Under Medi-Cal's fee-for-service payment system, medical providers, such as physicians and hospitals who provide medical services to eligible recipients, submit claims for

these services to a nongovernmental fiscal intermediary under contract with the State. The fiscal intermediary processes the claims and sends them to the State for payment.

The first fiscal intermediary contract was awarded to Medi-Cal Intermediary Operations on a no-profit/no-loss basis; that is, the State reimbursed Medi-Cal Intermediary Operations for its costs. With the Legislature's concurrence, the Department of Health Services decided in 1976 to seek competitive bids for a new fiscal intermediary system. This effort resulted in the State's awarding the fiscal intermediary contract to the Computer Sciences Corporation (CSC) for an estimated \$129.6 million.\* This contract, which became effective September 1, 1978, is scheduled to terminate on February 29, 1984. The contract provides for an extension of up to 12 months at the State's option.

In awarding the contract to the CSC, the State intended that the fiscal intermediary system increase the financial responsibility of the contractor, establish a more efficient and effective claims-processing system, and strengthen the State's management of the Medi-Cal program.

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\* This figure is based on anticipated claim volumes and is thus an approximation. It excludes certain items, such as postage, for which the contractor is reimbursed. Additionally, it does not reflect the cost of certain changes made to the claims-processing system.



While the current contract has met some of these objectives, achieving them has caused considerable difficulties for the State, the CSC, and the providers of Medi-Cal services. (See Appendix.)

To procure the next fiscal intermediary, the State established a task force to develop a new RFP. In an interagency agreement, effective October 1, 1981, the Department of Health Services transferred responsibility for the administration of the procurement effort to the Health and Welfare Agency. The agreement also established the MCPP, which became responsible for developing the RFP, evaluating vendor proposals, selecting the next fiscal intermediary, and making the transition to the new contractor. On March 1, 1983, the Health and Welfare Agency transferred the MCPP to the Department of Health Services.

#### The Selection of the New Fiscal Intermediary

The goal of the MCPP, as stated in the RFP, is to devise a contract that ensures continued fiscal intermediary services and that can be effectively administered and monitored by the State. To this end, the MCPP, with advice from state control agencies, the Federal Health Care Financing Administration, potential vendors, and other interested parties, developed an RFP that describes more fully than the

previous RFP the services to be performed and the conditions to be met by the next Medi-Cal fiscal intermediary.

#### Provisions for Protest

The RFP contains provisions for vendors to protest during the various phases of the procurement process and comment on other vendor protests. The RFP limited grounds for protests to allegations that the Department of Health Services unfairly restricted competition and that the MCPP failed to adhere to evaluation procedures established in the RFP.

The RFP also provides for the resolution of these protests. An independent mediator was hired by the Health and Welfare Agency to review protests and make recommendations for their resolution. Protests made after the contract is awarded are to be resolved by the Department of General Services.

#### The Evaluation Process

The MCPP invited vendors to submit detailed proposals that demonstrated their ability to meet the requirements of the RFP. The MCPP's evaluation of the proposals consisted of two steps. The first step was a technical evaluation to determine if the proposals met RFP requirements and to ascertain whether the vendor had the ability to meet contractual responsibilities. In the second step, the MCPP received and

evaluated bids and cost data from vendors to determine the lowest bid and award the contract.

To conduct the technical evaluation, the MCPP organized 10 team leaders and 59 evaluators into 19 evaluation teams (most team leaders were responsible for more than 1 team). Team members were selected from the MCPP, the Department of Health Services, the Health and Welfare Agency Data Center, the State Controller's office, and the Department of Finance. The MCPP used 76 criteria in the technical evaluation of the proposals, with each criterion considered critical to the success of the fiscal intermediary contract. The 76 criteria were divided among the teams; each team evaluated all proposals using the specific criteria assigned to that team. In addition to the evaluation teams, two other groups reviewed the evaluation results: an MCPP evaluation management group and the Evaluation Advisory Committee composed of staff from state and federal agencies.

The technical evaluation consisted of four phases that provided for extensive scrutiny of the proposals and also allowed for extensive clarification and correction of proposals by the vendors. During phase 1, the evaluation teams reviewed the proposals to ensure that each proposal contained all elements required by the RFP. The MCPP notified vendors of

areas of noncompliance or of missing elements and requested the vendors to provide the required information.

In phase 2, the teams began initial evaluation of the proposals. The teams again requested clarification from vendors for areas in the proposals that were unclear, incomplete, or inaccurate. Upon completion of phase 2, the MCPP sent vendors a "Notice of State Reservations and Concerns," identifying areas where the proposals were nonresponsive to requirements, defective, or weak.

Scoring of the proposals began in phase 3 of the evaluation. The evaluation teams reviewed the proposals, the vendors' clarifications, and the vendors' responses to the "Notice of State Reservations and Concerns," and awarded each proposal points on each of the 76 criteria. Using a preselected standard, the MCPP then determined whether the vendor had a "passing" score for each criterion. For areas of the proposals that were still weak, defective, or unclear, the MCPP requested further clarification from vendors. The MCPP then determined team scores for each criterion. Vendors that failed any criterion were sent a "Notice of Deficiency" asking the vendor to correct the parts of the proposal that were still inadequate.

In phase 4, the final phase of the technical evaluation, the teams reviewed vendor responses to deficiency notices, and then again determined criterion scores. In this final phase, proposals were judged either acceptable or unacceptable; there was no final ranking of vendor proposals. During the technical evaluation process, the MCPP notified vendors of nearly 2,400 areas of their proposals that needed improvement.

#### The Invitation for Bid and Award

In the second step of the evaluation process, vendors who "passed" the technical evaluation received an Invitation for Bid (IFB). The vendors' response to the IFB included bids and detailed information on the costs of contract takeover, operations, the Systems Development Group, system enhancements, vendor hourly reimbursements, and the turnover of the contract. The RFP, the vendor's proposal, and the vendor's bid package constitute the main components of the fiscal intermediary contract.

The MCPP evaluated the cost data in the bid packages to determine that the total bid in each bid package was correct. The MCPP then announced the Notification of Intent to Award the Contract to the winning bidder. Section 14832.8 (b)

of the California Government Code stipulates that state agencies are to award such contracts to the responsible vendor with the lowest bid.

#### SCOPE AND METHODOLOGY

During the course of our monitoring of the Medi-Cal Procurement Project, we expressed our concerns to the MCPP's officials on various issues. However, our role as an independent oversight agency precludes either our participating in actual decisionmaking or our approving the adequacy of the MCPP's work. From an auditing perspective, such approval can only be gained through formal auditing procedures conducted according to established governmental auditing standards. These standards state that only when audited items have been found to be in compliance with applicable laws and regulations can positive assurance be provided. Such assurance can be given only upon completion of a formal, after-the-fact audit rather than through monitoring.

The primary objective of this phase of our monitoring was to review the MCPP's procedures for evaluating vendor proposals. Consequently, we concentrated our review on the evaluation procedures. We did not evaluate actual vendor proposals or assess the MCPP's evaluations of the proposals.

To identify the evaluation procedures, we reviewed appropriate sections of the RFP and the MCPP's evaluation criteria. We also examined Evaluation Scoring Sheets and materials for training the evaluators. In addition, we examined state regulations and met with officials from both the headquarters and regional office of the Federal Health Care Financing Administration.

To monitor the development of evaluation policy decisions, we attended meetings of the MCPP Evaluation Advisory Committee. We also met with members of the MCPP, with evaluation team leaders, and with evaluation team members to monitor the progress of the procurement project and the evaluation of proposals.

We also reviewed information related to vendor protests, the Health and Welfare Agency's independent mediator, and the MCPP's resolution of the protests. Finally, we reviewed the two drafts of the IFB, the final IFB, and the MCPP's evaluation of vendor bid packages.

In the first section that follows, we discuss the release of the RFP and the MCPP's resolution of vendor protests. In the second section, we discuss the MCPP's evaluation of vendor proposals. The third section contains information on the Invitations for Bid and the selection of the

new fiscal intermediary and the protest to the award of the contract. We have also included an appendix containing a synopsis of previous Auditor General reports on Medi-Cal's fiscal intermediary operations. In a later report, we will discuss the resolution of the protest to the award of the contract.



## ANALYSIS

### I

#### THE RELEASE OF THE REQUEST FOR PROPOSAL AND THE RESOLUTION OF VENDOR PROTESTS

On March 1, 1983, the MCPP released the Request for Proposal (RFP) to potential contractors and other interested parties. The MCPP received two vendor protests to the RFP, which were resolved by changes in the RFP. We found that the MCPP adhered to RFP requirements in resolving the protests.

The Electronic Data Systems Corporation (EDS) and the Computer Sciences Corporation (CSC) protested several provisions in the RFP. The MCPP, following its procedures for resolving protests, solicited comments on the two protests from other prospective contractors. The McAuto Systems Group, Incorporated (McAuto), responded with comments on both protests.

The EDS protested that the RFP was unduly restrictive to fair competition on three major points. First, EDS contended that the 16-month contract takeover period required by the RFP was too long. Second, the EDS contended that the RFP contained insufficient data on the cost and resource

utilization of the current system, thus depriving all vendors except the current contractor the data needed to prepare accurate proposals and bids. Finally, the EDS protested the RFP requirement that the fiscal intermediary's main facilities be located within 25 miles of the State Capitol building.

The CSC protested that the RFP unduly restricted competition in four respects. First, the CSC alleged that the scope of the work outlined in the RFP was "open-ended" and not sufficiently defined for vendors to submit an accurate fixed-price bid. Second, the CSC claimed that the RFP's liquidated damages provisions were "overbroad and oppressive." Third, the CSC protested that the RFP imposed a number of "unduly restrictive requirements" that were difficult to assess in the preparation of a bid. Finally, the CSC contended that the issuance of the RFP was improper, in that the MCPP had failed to conform to Section 12100 et seq. of the Public Contract Code, which requires that the Department of General Services conduct or supervise major electronic data processing procurements.

In its comments on the protests, McAuto noted that it concurred with all the issues defined by the EDS. McAuto also supported all of the CSC's arguments except for the CSC's contention that the MCPP was circumventing the Public Contract Code.

To resolve the protests the independent mediator met with the EDS, the CSC, and McAuto. The mediator also received information from the MCPP, the Office of the Auditor General, other state agencies, and nongovernmental sources. In addition, the MCPP requested an opinion from the Attorney General concerning the legality of the procurement.

On May 9, 1983, the mediator issued his recommendations. He noted that the takeover period was too long and recommended that the period be shortened by eliminating the gradual phase-in of claims processing, allowing the new contractor to start full operations earlier. The mediator also recommended that the MCPP make several provisions in the RFP more specific and that the MCPP review the liquidated damages provisions. The mediator disagreed with the EDS and the CSC on the other protest issues, recommending no other changes. On June 28, 1983, the Attorney General issued a legal opinion stating that the Department of Health Services has responsibility for the procurement.

In response to the mediator's recommendations, the MCPP issued an addendum to the RFP. This addendum revised the takeover timetable; the new contractor will now be responsible for full fiscal intermediary operations on July 5, 1984,

instead of October 1, 1984.\* In addition, the addendum revised several RFP provisions, defining requirements which had previously been undefined.

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\* As a consequence of the shortened takeover period and the CSC's winning the contract, the extension of the current contract with the CSC has been reduced to seven months instead of ten months as the MCPP earlier proposed. However, the length of the extension will be affected by the resolution of McAuto's protest to the award of the contract.

## II

### THE EVALUATION OF VENDOR PROPOSALS

On May 16, 1983, three vendors, the Electronic Data Systems Corporation, the Computer Sciences Corporation, and the McAuto Systems Group, Incorporated, submitted proposals to the MCPP for evaluation. On August 3, 1983, the MCPP notified all three vendors that their proposals had been found acceptable. We monitored each phase of the evaluation process to ensure that the MCPP adhered to the evaluation requirements stated in the RFP; we found that the MCPP complied with the evaluation requirements and that the MCPP adequately documented the evaluation process.

Before the evaluation began, we reviewed and commented upon the development of evaluation procedures, plans, and materials. We attended training sessions for team leaders and team evaluators, expressing our concern that evaluation requirements be followed and that the evaluation be adequately documented.

As part of our monitoring of the evaluation process, we compared the 76 criteria to be used by the evaluation teams to the criteria in the RFP to ensure consistency and

completeness of the evaluation criteria. During this comparison, we noted some inconsistencies and errors. For example, part of one criterion inaccurately reflected RFP requirements. We presented the results of our review to the MCPP's evaluation manager, who corrected the weaknesses.

We then performed a similar review of the draft Evaluation Scoring Sheets. These sheets, to be used by the evaluators to document their evaluation of the vendor proposals, contained a detailed listing of all areas the evaluators should consider in their review. During our examination of the Evaluation Scoring Sheets, we noted problems such as incomplete listings of parts of some criteria and the inclusion of considerations not required in the RFP. We presented our findings to the evaluation manager, who incorporated our suggested changes into the final Evaluation Scoring Sheets.

In our review of the documentation in phase 2 of the evaluation, we used a checklist to review the MCPP's compliance with evaluation procedures. We found only minor oversights, such as evaluators' failing to note on their evaluation sheets that a clarification had been requested from a vendor. We presented the results of our review to the individual team leaders. Additionally, we met with team leaders and the MCPP evaluation management group to suggest methods to improve

evaluation documentation. Subsequently, the MCPP amended evaluation procedures to reflect our suggestions.

During our review of phase 3 of the evaluation, we again reviewed the evaluation teams' documentation of the criteria. The review showed that the MCPP had adhered to required evaluation procedures. After the MCPP issued Notices of Deficiency, we reviewed the documentation for each notice and found the documentation to be in order.

To review phase 4 of the evaluation, we examined the rescoring after vendors had responded to the Notices of Deficiency. We found that the evaluation teams had followed the required evaluation procedures. We also examined those items in the proposals that the MCPP had found to be unacceptable. These items, such as unwarranted vendor assumptions, will not be part of the new contract.

### III

#### THE INVITATION FOR BID AND THE SELECTION OF THE NEW FISCAL INTERMEDIARY

Before the release of the Invitation for Bid (IFB), the MCPP issued two drafts of the IFB for review and comment by interested parties. We reviewed both drafts and suggested changes in instructions, format, and language. The MCPP's evaluation manager incorporated the changes into the final IFB. We also reviewed the MCPP's evaluation of the winning bid package and found that the MCPP had followed proper procedures.

On August 5, 1983, the MCPP sent Invitations for Bid to the Electronic Data Systems Corporation, the Computer Sciences Corporation, and the McAuto Systems Group, Incorporated. On August 24, 1983, the bids were opened; the Computer Sciencies Corporation submitted the lowest total bid of \$72,950,000.\*

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\* This figure is based on anticipated claim volumes and is thus an approximation. It excludes certain items, such as postage, for which the contractor is reimbursed. Additionally, it does not reflect the cost of certain changes made to the claims-processing system.



Table 1 below shows the total bids of the three vendors.

<u>TABLE 1</u>			
<u>TOTAL VENDOR BIDS</u>			
	<u>EDS</u>	<u>CSC</u>	<u>MCAUTO</u>
Takeover	\$14,997,383	\$ 368,600	\$23,801,045
Operations	64,247,273	61,933,500	41,678,195
Systems Development Group	7,324,188	8,072,957	7,579,848
Enhancements	1,627,198	531,400	940,892
Hourly Reimbursement	165,416	245,000	-0-
Turnover	<u>338,542</u>	<u>1,798,543</u>	<u>-0-</u>
Total	<u>\$88,700,000</u>	<u>\$72,950,000</u>	<u>\$73,999,980</u>

The "Takeover" bid is a fixed price bid for the major tasks of "taking over" the new contract; these tasks include upgrading the system's documentation and testing the system by the contractor and the State. The contractor will receive incremental payments as it satisfactorily completes takeover tasks; the contractor will receive final payment after the takeover period. The "Operations" bid is based on the calculation of the contractor's prices for processing claims during the life of the contract. The "Systems Development Group," which is a group of persons selected by the contractor to make modifications, developments, or enhancements to the system as directed by the State, will be paid a fixed hourly rate for each of its members. The bid for the group is the

contractor's price for the group during the contract. The contractor will not necessarily be paid the amount bid, but instead will be paid according to the size of the group. The bid for "Enhancements" is a fixed price bid; the contractor will be paid this amount as the 26 enhancements to the system are completed, and approved by the State. "Hourly Reimbursement" represents computer and other costs that the contractor incurs in producing special reports. The hourly rate is computed by dividing the equivalent of 300 computer hours by the contractor's costs. The contractor will be paid for actual hours used and will not necessarily receive the amount that was bid. The "Turnover," the orderly transfer of the system upon completion of the contract or termination, is also a fixed price bid. The contractor will be paid this amount in three installments: two prior to contract completion and one after the "phaseout" of contractor operations.

On August 29, 1983, after the evaluation of the vendor's bid package, the MCPP announced the Notification of Intent to Award the contract to the Computer Sciences Corporation.

On September 6, 1983, the McAuto Systems Group, Incorporated, protested the award of the fiscal intermediary contract to the Computer Sciences Corporation. In its protest,

McAuto contends that it is the lowest responsible bidder meeting the specifications of the contract.

McAuto submitted its complete written statement specifying the grounds of its protest on September 12, 1983. McAuto alleges that the CSC's bid is not based on the CSC's proposal that was found acceptable by the State. McAuto states that the CSC offered a total of 854 staff in its proposal but reduced the staff level to 510 persons in its bid document. McAuto contended that the CSC's reduction in staffing is not justified and that the staff level of 510 persons is far below the level approved in the CSC's proposal.

McAuto also claims that the CSC's bid is nonresponsive to the IFB, because it does not include information specifically required by the IFB for the evaluation of the bids. According to the McAuto protest, the CSC's bid does not include complete staffing estimates. Furthermore, McAuto contends that the State improperly allowed the CSC to modify its bid after the bid was opened.

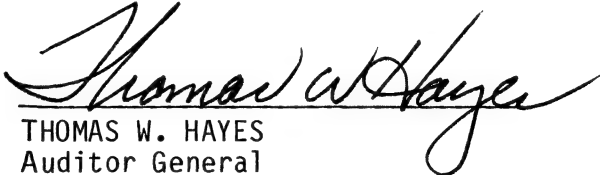
McAuto believes that the CSC's bid should be rejected as nonresponsive and that the State should award the contract to McAuto as the lowest responsible bidder.

Section 14832.9 of the California Government Code requires the Department of General Services to resolve protests relating to the award of contracts. Under procedures established in the State Administrative Manual, the Department of General Services will appoint a hearing officer, hold public hearings, and receive testimony from all interested parties.

The Department of General Services must issue its decision on the protest within 30 days after the hearings. The Medi-Cal fiscal intermediary contract cannot be awarded until either the protest is withdrawn or the Department of General Services issues its decision.

We conducted this audit under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specifically contained in the audit request.

Respectfully submitted,

  
THOMAS W. HAYES  
Auditor General

Date: September 19, 1983

Staff: Richard C. Tracy, Audit Manager  
Clifton John Curry



HEALTH and WELFARE AGENCY

OFFICE OF THE SECRETARY  
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Sacramento, California 95814  
(916) 445-6951

September 13, 1983

Mr. Thomas W. Hayes  
Auditor General  
660 J Street, Suite 300  
Sacramento, CA 95814


Dear Mr. Hayes:

Thank you for the opportunity to review your draft report entitled "The Selection of the New Medi-Cal Fiscal Intermediary".

There are no substantive comments which we wish to make on this report.

We want to express our appreciation to you and your staff for the positive comments we received as well as for the professional approach and conduct of this review.

Sincerely,

  
for DAVID B. SWOAP, Secretary  
Health and Welfare Agency

SYNOPSIS OF PREVIOUS AUDITOR GENERAL REPORTS  
ON MEDI-CAL FISCAL INTERMEDIARY OPERATIONS

Report P-005, May 1980 -- A Review of Computer Sciences Corporation and the Department of Health Services Medi-Cal Fiscal Intermediary Operations

Our review of the Computer Sciences Corporation's (CSC) compliance with contract requirements indicated the following: (1) because the CSC's automated claims processing system was not completely tested before various claim types were put into actual operation, significant problems with the system occurred; (2) for four of the first nine months of operation, the CSC failed to meet the 18-day average monthly time standard for processing; (3) the number of claims suspended from the system exceeded contractual requirements; and (4) in three of the CSC's four subsystems with reporting responsibilities, not all required reports were produced in an accurate and timely manner.

Additionally, by assessing liquidated damages more frequently, the Department of Health Services (department) could have more rigorously penalized the CSC for not complying with the contract. In part, greater liquidated damages were not assessed because the CSC and the department interpreted differently the intent of the liquidated damages clauses contained in the contract. Because of these problems, we

recommended that the department increase its monitoring of the CSC's performance. We also provided specific recommendations directed at improving the efficiency and effectiveness of claims processing.

Report P-021, January 1981--The Department of Health Services' Monitoring of the Medi-Cal Contract with the Computer Sciences Corporation

We reported that the department had not developed a comprehensive plan for monitoring the fiscal intermediary. For example, the department had not defined measurements or methods for calculating performance standards necessary to assess the adequacy of the CSC's performance. Because of inadequate monitoring, the department had been unable to ensure that the CSC was meeting the performance standards contained in the contract.

Report P-021.1, January 1981--Review of Computer Sciences Corporation's Compliance with Medi-Cal Claims Processing Time Standards

An independent analysis of the CSC's performance, conducted by the international auditing and consulting firm of Coopers and Lybrand, found that after the contract had been in effect for more than two years, the CSC and the department had not agreed on how to evaluate the CSC's actual performance for purposes of monitoring the CSC's compliance with contract standards. Because the contract presented a vague discussion

of performance standards, the consultant had to independently interpret these performance standards. The consultant found that although the CSC had not fully conformed to the contract standards, its performance was improving.

Report P-044, September 1981--The CSC Has Authorized At Least \$12.6 Million in Recoverable Medi-Cal Overpayments That An Improved Quality Assurance Program May Have Detected

We conducted six computerized tests of payment accuracy for certain claims processed during a 15-month period and identified overpayments totaling between \$12.6 million and \$25.3 million. Although the contract requires the CSC to develop a quality assurance program, we found that this program had been inadequate for three reasons: (1) the CSC's testing of both the system design and all system modifications had not identified certain basic errors; (2) the CSC's quality assurance program was incomplete because a key unit was still not functioning; and (3) the CSC had not ensured that the data file used for processing claims was updated and that all data were recorded accurately.

Management Letter 228.1, June 1982

In this report, we recommended that the Medi-Cal Procurement Project (MCPPE) delay the decision to extend the current contract until four issues had been fully addressed by the MCPPE staff. These issues included the documentation of the



present claims-processing system, the cost of extending the present contract, allowing contract bids for functioning equivalent systems, and time and staffing requirements for preparing the Request for Proposal.

Report P-228.2, October 1982--Status Report on the Selection of the Next Medi-Cal Fiscal Intermediary

We provided information on the MCPP's overall status. We found that although the project had not met two of the Compass Consulting Group's recommended goals--the review of the documentation of the current claims-processing system for bidders, and full MCPP staffing by July 1, 1982--the project was underway and, by August 1, 1982, was fully staffed. We also reported the status of the MCPP's implementation of our recommendations concerning an extension of the current fiscal intermediary contract, and we provided a synopsis of the major policy decisions made regarding the procurement process and the new contract.

Letter Report 228.4, October 1982

In this report, we presented information regarding the State's expenditures for Medi-Cal fiscal intermediary services under the current contract with the CSC. Also, we estimated that the State lost approximately \$3.4 million in federal funds due to delays in gaining the Health Care

Financing Administration's full certification of the Medicaid Management Information System within the CSC claims-processing system.

Report P-228.3, February 1983 -- Status of the Medi-Cal Procurement Project and Review of Its Draft Request for Proposal

We noted that the MCPP was on schedule, that system documentation was adequate and that recent Medi-Cal reform legislation had been incorporated into the RFP. We also noted our concerns over the RFP provisions for contractor quality control and contractor payment. We explained that if these provisions were not corrected, problems with the current contract may be repeated in the next contract. We included a synopsis of the MCPP's major policy decisions since the previous Auditor General's status report in October 1982.

cc: Members of the Legislature  
Office of the Governor  
Office of the Lieutenant Governor  
State Controller  
Legislative Analyst  
Director of Finance  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Majority/Minority Consultants  
Capitol Press Corps